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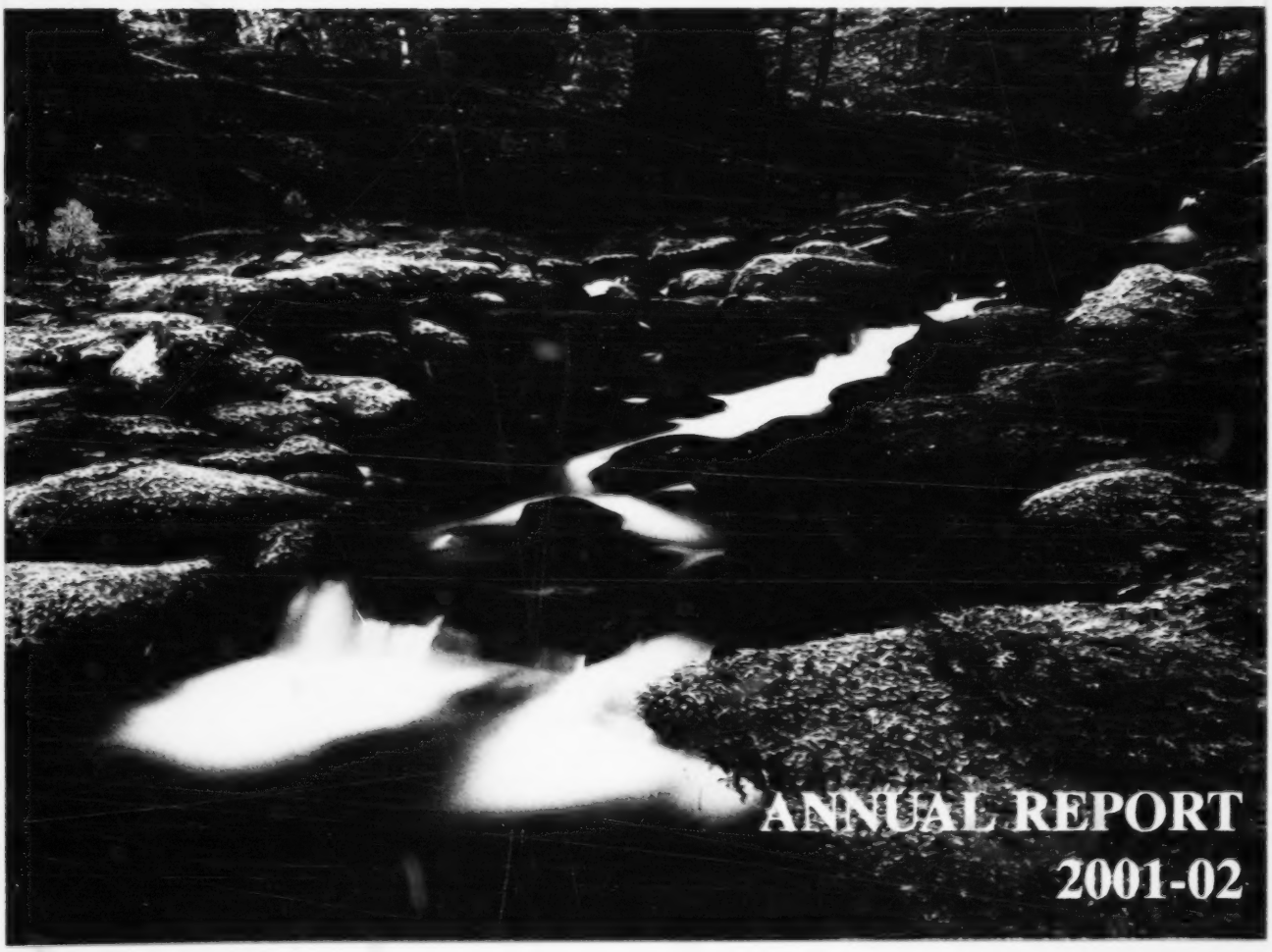
SYDNEY ENVIRONMENTAL RESOURCES LIMITED



ANNUAL REPORT 2001-02

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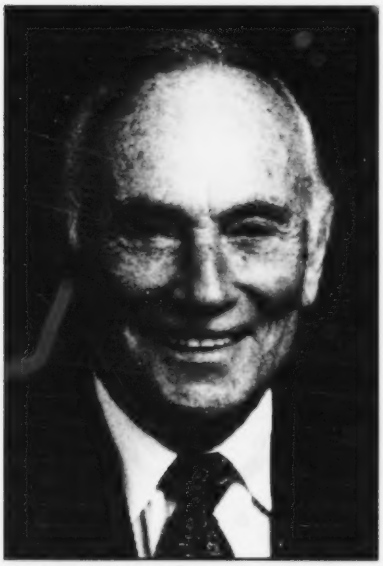

Ron Russell, MLA (Hants West)
Minister of Transportation and Public Works

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September 17, 2002

Minister of Transportation and Public Works
Province of Nova Scotia
Halifax, Nova Scotia

Sir:

On behalf of the Board of Directors, I have the pleasure to submit herewith the Annual Report of Sydney Environmental Resources Limited for the period ended March 31, 2002.

Sydney Environmental Resources Limited continued to evolve in service to Nova Scotia. A versatile and adaptable business model allowed the Corporation to respond quickly and efficaciously to the unique demands of a challenging and frequently changing workplace.

Men and women whose experience and knowledge is of inestimable value guided the Corporation in the successful execution of its mandate. They comprise a strong team with vision and a determination to succeed.

The Corporation's business plan is grounded in the belief that Sydney Environmental Resources Limited can continue to have a positive impact on the environment and in the process contribute to the economic and social well-being of the community.

Respectfully yours,

E. J. MacLellan, Ph.D., P.Eng.
Acting Chairman

Corporate Profile

Origin

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. The Governor in Council, Province of Nova Scotia, on the report and recommendation of the Minister of Industry Trade and Technology and in accordance with the appropriate Acts, approved establishment of Sydney Environmental Resources Limited (SERL), formerly Sydney Tar Ponds Clean-Up Inc., on March 26, 1991. Consistent with policies of the Government of Nova Scotia, the Corporation has adopted an evaluation and accountability framework in the design of individual core business functions, accountability and reporting methods. The model is consistent with the Corporation's business plan and makes use of traditional performance assessment tools in tandem with modern comptrollership techniques. As well, it identifies the chain of results from core business to eventual outcomes and key results commitments.

SERL is organized around three units:

- ***PLANNING AND ADMINISTRATION;***
- ***OPERATIONS; AND***
- ***CONTRACT SERVICES.***

The Corporation maintains its head office in Sydney, NS, and reports to the Minister of Transportation and Public Works, Province of Nova Scotia, through the Sydney Tar Ponds Agency.

Mission

The shareholder approved amendments to the Corporation's mission in the report period as recommended by the Board of Directors to better reflect the range and diversity of business functions. Sydney Environmental Resources Limited's mission is:

to maintain the physical assets of the former Sydney Tar Ponds Clean-Up Inc.; secure Nova Scotia's land holdings within the Muggah Creek Watershed, and Sydney Steel Plant Site; assist in the decommissioning of industrial structures on the steel plant site and adjacent Nova Scotia lands; and provide various labour related services to the management of SYSCO and the Sydney Tar Ponds Agency (NS).

Core Business Functions

As approved by the shareholder in the corporate business plan submitted for the Fiscal Year 2001/2002, Sydney Environmental Resources Limited's core business functions were:

- **complement efforts of the Department of Transportation and Public Works, in discharging Nova Scotia's responsibilities as lead agency within the framework of the Memorandum of Understanding between government partners and the Joint Action Group on the remediation of the Muggah Creek Watershed ;**

- **maintain the co-generation complex originally constructed as part of the Sydney tar ponds clean up;**

- **within the framework of the Memorandum of Understanding between government partners and the Joint Action Group, deploy trained, experienced personnel to secure Nova Scotia's land holdings within the Muggah Creek Watershed; and**

- **decommission large scale industrial structures throughout inoperative sections of the former steel plant site, in particular safely remove and prepare asbestos for disposal.**

Compliance

SERL operated in compliance with the policies and procedures of the Province of Nova Scotia. More particularly, with respect to procurement, the Corporation employed government principles and procedures to secure goods and services at the lowest possible cost while maintaining requisite quality, safety, delivery and service requirements. Additionally, fair-hiring practices applied. Where non-unionized positions could not be filled internally they were publicly advertised and recruitment was by means of open and fair competition. With respect to unionized positions, United Steelworkers of America Local 1064-2 members were recalled from a severence list. The Corporation complied with Nova Scotia legislation on Freedom of Information.

Financial statements were prepared monthly and yearly in accordance with generally accepted accounting principles to reflect the financial position and results of operations of the Corporation within reasonable limits of materiality. The integrity of financial reporting was ensured with a system of internal accounting controls that comprised written policies and procedures and a formal authorization structure. The Board of Directors carried out its responsibility for the financial statements through an Audit Committee. The financial statements of the Company were independently audited in accordance with generally accepted auditing standards.

Retrospect- Fiscal Year 2001-02

Introduction

The Corporation continued to use its versatility, unique networks and human resource expertise to the advantage of Nova Scotia . Among noteworthy developments in the report period was the significant expansion of contract services to include security and decommissioning at the Sydney Steel Plant. At peak, aggregate staff complement reached sixty-five. Despite additional administrative demands, the Corporation was able to meet its contract service obligations without significantly increasing overhead expenses.

New appointees broadened the collective experience and expertise of the Board of Directors and strengthened its stewardship role. Former assets of the Sydney tar ponds clean up continued to be maintained at a level appropriate to recommissioning if so required in the remediation of the Muggah Creek Watershed. The Corporation adjusted well to a new working relationship with Sydney Tar Ponds Clean Up Agency and maintained a productive association with Sydney Steel Corporation and its agent.

Within the framework of the 2001-2002 business plan, the Corporation established strategic goals consisting of support of Nova Scotia's fiscal, environmental and health and safety objectives through a range of services appropriate to planning and preparing for the clean up of the Muggah Creek Watershed; the pursuit of Nova Scotia's long-term environmental, health and safety, economic and fiscal objectives in decommissioning industrial structures on the former Sydney steel plant site; maintenance of the assets of the former Sydney Tar Ponds Clean-Up; and the provision of security services in the case of Nova Scotia's land holdings and assets within the Muggah Creek Watershed.

Operating priorities for 2001-2002 fiscal year included working within collective agreements earlier negotiated with unionized personnel, preparation of an industrial structures decommissioning plan for structures on the section of the steel plant site managed by the Corporation, pursuit of alternative uses for the former assets of the Sydney Tar Ponds Clean-Up, assessment of human resource needs in anticipation of retirements as part of the closure of Sydney Steel Corporation; protection of Nova Scotia interests on provincial properties within the Muggah Creek Watershed and continued maintenance of the assets of the former Sydney Tar Ponds Clean-Up.

Reporting Line

Early in the report period, the Department of Transportation and Public Works (TPW) established Sydney Tar Ponds Agency (STPA) to enhance Nova Scotia's role in the clean up of the Muggah Creek Watershed through the strategic deployment and co-ordinaton of provincial resources.

As part of an integrated and considered approach to the remediation of the watershed the Corporation maintained close ties with the agency through which it reported to the shareholder.

Board of Directors

The Board of Directors met regularly throughout the fiscal year; in addition, special meetings were convened. Internal committees were utilized as follows: Audit, Technical, Human Resources, and Public Relations.

By Order in Council, Messrs. John MacRitchie, George F. Hepworth and Fred R. James along with Ms. Frances D. Morrison became directors of the Corporation late in 2001. Mr. MacRitchie is a professional engineer with varied technical and managerial experiences. Mr. Hepworth is a retired public servant having held positions with the Governments of Canada and Nova Scotia. Mr. James specialized in human resource issues while part of the management team at Sydney Steel Corporation and Ms. Morrison is a community and environmental activist with a range of interests.

Front Row: L to R - Frances Morrison, Fred James & Ray Martheleur (Vice-Chairman) Back Row: L to R - George Hepworth, Edwin MacLellan (Acting Chairman) & John MacRitchie

The complement of directors now stands at six with two vacancies. Mr. Gary Campbell, Executive Director Technical Services, Sydney Tar Ponds Agency, continues in the capacity of liaison between the Corporation and the shareholder (Minister of Transportation and Public Works).

Business Plan - Fiscal Year 2002-2003

Early in 2002, the Board of Directors approved a business plan for the Fiscal Year 2002-2003. Among other things, it cited the Corporation's goals as providing support for Sydney Tar Ponds Agency in planning and implementing clean up of the Muggah Creek Watershed; decommissioning of large scale industrial structures on the SYSCO site; maintenance of the assets of the original Sydney Tar Ponds Clean-Up; protection of Nova Scotia's land holdings within the Muggah Creek Watershed; an effective working relationship with SYSCO, its agents and assigns; and co-operative labour relations with key bargaining units.

Human Resources

The Corporation operated with full-time equivalent staff of twenty-five. Contract personnel employed in steel plant security (14) and decommissioning (26) peaked at forty, for a total combined staff complement of sixty-five. Twelve full-time staff were engaged in facilities maintenance and seven in security activities at the Coke Ovens and #8 Ferry Street Gate. The management team comprised two senior executives and administrative staff of two.

George MacNeil, [illegible]

A one year collective agreement was successfully negotiated with the bargaining unit for the Canadian Union of Public Employees for the provision of security at SYSCO.

Health and Safety

The Corporation had representation on three strategic internal committees mandated to ensure that the workplace was compliant with health and safety regulations. A health and safety officer was added to the management team to ensure continued compliance. There were no major health and safety incidents in the report period.

Working Agreement

Late in the report period, management initiated discussions with Sydney Steel Corporation and Ernst & Young, Agent of SYSCO and the Province of Nova Scotia, on a Memorandum of Understanding respecting principles, protocols and procedures governing the working relationship between the parties in the delivery of contract services throughout steel plant decommissioning.

Communications

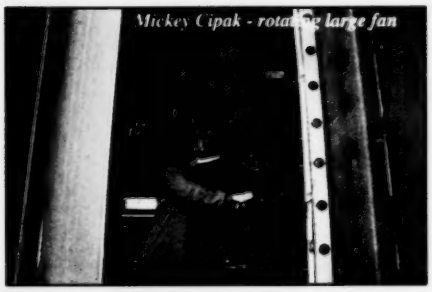
The Public Relations Committee continued active in the interests of internal and external communications. Regular briefings were provided to senior ministry officials on a range of topics within the scope of the Corporation's mandate. Management worked closely with the committee to ensure the workforce remained current on key company issues. Various communication products, including specialized presentations and a corporate video, were frequently employed to support key messages in meetings with internal and external audiences. Specialized groups and business interests were singled out for presentations, particularly those with an interest in the SYSCO site. The Corporation hosted United Steelworkers District 6 Health and Safety Committee while on tour of the Muggah Creek Watershed area. A national newspaper supplement on Nova Scotia Crown Corporations featured the Corporation and received wide distribution. Site tours centred on assets of the former Sydney Tar Ponds Clean-Up were provided on demand. In this regard, the Corporation maintains a close working relationship with the University College of Cape Breton, in particular students enrolled in engineering and environmental technology studies. Requests for information were processed satisfactorily on a regular basis. Management continued active in the Nova Scotia Environmental Industry Association whose purpose it is to promote the growth, development and interests of the environmental industry within the province. Corporation staff responded to speaking engagements and the company's web site was frequently updated.

Outcome & Performance Measures

Core business activities for the Corporation in the 2001-2002 report period comprised maintenance, site security, support of Nova Scotia's role as lead agency in the execution of the memorandum of understanding concerning remediation of the Muggah Creek Watershed and decommissioning of industrial structures on the steel plant site.

a) Maintenance

A complement of twelve unionized staff completed a range of tasks as part of an on-going, structured maintenance program at the co-generation plant comprising twin fluidized bed incinerators, bag house, boiler house and power generation station. Included among more significant activities were the installation of new lighting in the boiler house, repair and replacement of electric heaters, lighting and electric heater blankets, installation and rewiring of a 100-amp circuit breaker panel, regular lubrication of valve spindles and shafts, and the replacement of photocells on exterior buildings.



Mickey Cipak - rotating large fan

The desired outcome of the maintenance program was to ensure that thermal destruction involving the use of the twin fluidized bed incinerators continued a viable option within the process established by JAG and its government partners to recommend remediation methods for the clean up of the Sydney Tar Ponds and Coke Ovens.

Independent and internal assessments of the overall condition of the co-generation complex were completed and indicated that recommissioning remained a viable option. As the process to recommend remediation methods for the clean up of the tar ponds and Coke Ovens moved into the final stage, thermal destruction was short listed as a remediation method.

b) Security

At the behest of Sydney Tar Ponds Agency and in compliance with an earlier recommendation of the Joint Action Group on Environmental Clean Up, corporate personnel continued to secure the Coke Ovens site. A staff of six is responsible for this endeavour, four of whom are affiliated with bargaining unit Local 1064-02 and two with the Canadian Union of Public Employees.

#3 Main Gate

Early in the report period, Ernst & Young Inc., Agent of SYSCO and the Province of Nova Scotia, finalized negotiations with the Corporation respecting management of security services at the SYSCO site for fiscal year 2001/02 with an option for continuation in fiscal year 2002/03. A complement of fourteen (14) affiliated with the Canadian Union of Public

Employees was engaged in the provision of services.

The desired outcome of the security function was to keep Nova Scotia's assets within the Muggah Creek Watershed safe and protected and, thereby, prevent potentially adverse incidents or challenges.

There were no occurrences, claims or controversies respecting Nova Scotia's assets that SERL was charged with securing.

c) Support of Nova Scotia in the capacity of lead agency in the implementation of the memorandum of understanding between JAG and government partners

SERL continued to support the Department of Transportation and Public works and more recently the Sydney Tar Ponds Agency in a range of areas related to the community stakeholder process established to pursue the clean up of the Muggah Creek Watershed. In this capacity, the Corporation provided administrative services, offered logistical support, undertook direct execution of projects, facilitated internal and external communications and liaised with select interest groups.

The declared outcome of the support function was to facilitate execution of the memorandum of understanding and assist Nova Scotia to meet targets as regards the community stakeholder process.

The memorandum of understanding was executed as planned in the report period and the stakeholder process is on schedule.

d) Industrial structures decommissioning and asbestos removal

Discussions were successfully concluded with Ernst & Young Inc. for the provision of services to Philips Environmental Services Limited, principal contractor to SYSCO in the demolition of industrial structures on the steel plant site. Under terms of the arrangement, SERL was mandated to mobilize and manage unionized (United Steelworkers of America and Cape Breton Building Trades) personnel in decommissioning structures as directed by Philips Environmental Services Limited as well as Ernst & Young.

In the report period, eight separate projects were undertaken for Ernst & Young on the steel plant site largely involving asbestos abatement. Structures decontaminated as part of this activity included the turbo blower building, harbour pump house, blast furnace, and degasser building. Twenty-two separate projects involving a range of activities were completed for Philips Environmental Services Limited as part of over all decommissioning of the steel plant. Activities

Kevin Corbett - decommiss...

included asbestos removal, PCB storage and clean up, and lead removal. More than 100,000 person hours of work resulted from the completion of the above noted projects.

In addition to decommissioning structures, Corporation personnel safely removed approximately 100 tons of asbestos from A, B and C boilers at the north end of the steel plant site within the co-generation complex. The material was extracted from miles of tubing and piping on the exterior of each boiler, bagged in keeping with regulated practices and disposed of in a certified landfill.

The outcome enunciated for this activity was the successful clean up of the steel plant site.

Decommissioning work at Sydney Steel progressed as planned on pace with original schedules. At the end of the report period approximately one-third of the structures designated for deconstruction had been decontaminated without incident.

Management Report

The accompanying financial statements and other financial information contained in the Annual Report were the responsibility of management and approved by the Board of Directors. The financial statements were prepared in accordance with generally accepted accounting principles except as disclosed in Note 3 to the financial statements and, where appropriate, reflect management's best estimates and judgments. In the opinion of management, these financial statements fairly reflect the financial position and results of operations of the Company within reasonable limits of materiality.

To discharge its responsibility for the integrity of financial reporting, management maintained a system of internal accounting controls that comprised written policies and procedures and a formal authorization structure. This system is designed to provide management with reasonable assurance that assets are safeguarded; that transactions are properly authorized and that financial records are properly maintained to provide accurate and reliable financial information.

The Board of Directors carried out its responsibility for the financial statements through its Audit Committee, which consisted entirely of members of the Company's Board. This Committee met periodically with management and the external auditor to discuss and review audit and financial matters, and recommended the financial statements of the Board of Directors for approval. The Company's external auditor had free and full access to the Audit Committee.

The financial statements were independently audited by J T Nash Limited in accordance with generally accepted auditing standards. The Auditor's Report outlined the nature of their audit and expressed their opinion on the financial statements.

Edwin MacLellan, P.Eng.
Acting Chairman

Brenda Tattrie
Manager

John T Nash
Chartered Accountant

J T Nash Limited
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Telephone (902) 539-2770 Facimile (902) 539-4192
jnash @ johnnash.ca

AUDITOR'S REPORT

To the Minister Responsible for Sydney Environmental Resources Limited

I have audited the operating fund balance sheet of **Sydney Environmental Resources Limited** for the year ended March 31, 2002 and the statement of revenue and expenditures for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2002, and the results of its operations for the year then ended, in accordance with Canadian generally accepted accounting principles except as disclosed in Note 3.

John Nash

May 17, 2002

Chartered Accountant

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
BALANCE SHEET
AS AT MARCH 31, 2002

	2002	2001
ASSETS		
Current		
Cash	$ -	$ 127,044
Accounts receivable (Note 4)	278,613	147,682
Prepaid expenses	6,854	50,000
	$ 285,467	$ 324,726
LIABILITIES		
Current		
Bank indebtedness	$ 137,792	$ -
Accounts payable and accrued liabilities	147,675	293,184
Due to Province of Nova Scotia (Note 5)	-	31,541
	285,467	324,725
EQUITY		
Share capital (Note 8)	1	1
	$ 285,468	$ 324,726

Commitments (Note 7)

Approved by the Board

.....Director

.....Director

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
STATEMENT OF REVENUE AND EXPENDITURES
YEAR ENDED MARCH 31, 2002

	2002	2001
Revenue		
Province of Nova Scotia		
Operations	**$ 1,243,024**	$ 1,468,405
Site security and other community costs	**473,033**	385,995
Asbestos Abatement Project	**178,685**	582,711
Sydney Steel site decommissioning	**1,518,812**	-
	3,413,554	2,437,111
Expenditures		
Operations (Schedule 1)	**1,243,024**	1,468,405
Site security and other community costs		
Wages and benefits	**327,082**	307,082
Supplies and services	**145,951**	78,913
Asbestos Abatement Project		
Wages and benefits	**127,938**	357,084
Supplies and services	**50,747**	225,627
Sydney Steel site decommissioning		
Wages and benefits	**1,031,047**	-
Supplies and services	**487,765**	-
	3,413,554	2,437,111
Excess revenue over expenditures		
	$ NIL	$ NIL

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2002

1. AUTHORITY AND OBJECTIVE

The Company was incorporated under the Nova Scotia Companies Act on July 10, 1990. It was established as a crown corporation of the Province of Nova Scotia by Order-in-Council on March 26, 1991. On January 7, 1998 the company changed its name from Sydney Tar Ponds Clean – Up Inc. to Sydney Environmental Resources Limited.

Its current objective is to utilize its resources in emerging community based environmental initiatives.

2. CONTINUATION OF THE BUSINESS

The accompanying financial statements have been prepared on a going concern basis which contemplates the realization of assets and the satisfaction of liabilities and commitments in the normal course of business. The continuation of the Company is dependent upon obtaining necessary funding from the Province of Nova Scotia and or the Government of Canada.

3. ACCOUNTING POLICIES

These financial statements have been prepared in accordance with generally accepted accounting principles except as outlined below.

a) Financing

The Company, an agency of Her Majesty, receives legislative appropriations for operating expenditures. These appropriations are reflected as operating grants to the extent of operating expenditures. Any excess appropriations are accounted for as deferred operating grants. Consequently, the Company does not have any equity.

b) Capital Assets

In accordance with funding requirements, the cost of capital assets are accounted for as current operating expenditures.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2002

4. ACCOUNTS RECEIVABLE

	2002	2001
Sydney Steel site decommissioning	**$ 145,139**	$ -
Asbestos Abatement Project	**-**	69,781
HST receivable	**69,638**	77,901
Province of Nova Scotia	**34,517**	-
Other	**29,319**	-
	$ 278,613	$ 147,682

5. PROVINCE OF NOVA SCOTIA FUNDING

The Company received the following amounts from the Province of Nova Scotia in the year:

	2002	2001
Current operating grant	**$ 1,243,024**	$ 1,468,405
Asbestos Abatement Project	**102,525**	561,056
Site security and other community costs	**473,033**	385,995
	$ 1,818,582	$ 2,415,456

As at March 31, 2002 there was a net receivable from the Province of Nova Scotia for this funding in the amount of $ 34,517 (2001 – net payable of $ 31,541).

6. RELATED PARTY TRANSACTIONS

In addition to the related party transactions in Note 5 above, the Company is related in terms of common ownership to all Province of Nova Scotia created departments, agencies and crown corporations. The Company enters into transactions with these entities in the normal course of business.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED MARCH 31, 2002

7. COMMITMENTS

a) Operations

The Company has committed to the Province of Nova Scotia, that it will run its affairs in accordance with Provincial standards. Its operations will be accountable to the Province through the Minister responsible for Sydney Environmental Resources Limited.

b) Sydney Steel Corporation

The company has undertaken to hire displaced Sydney Steel Corporation employees.

8. SHARE CAPITAL

Authorized
50,000 common shares with no par value

Issued

1 share at $1	$ 1

9. COMPARATIVE FIGURES

Certain of the comparative figures from the March 31, 2001 fiscal year have been reclassified to conform to the financial statement presentation adopted for the current year.

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
SCHEDULE 1
OPERATING EXPENDITURES
YEAR ENDED MARCH 31, 2002

Operating expenditures		
Civic taxes	**$ -**	$ 3,329
Directors' fees	**15,226**	10,142
Health, safety and environmental	**144,260**	162,663
Incineration plant operation and maintenance	**16,967**	52,898
Incineration plant overhead	**201,052**	185,476
Office	**32,728**	21,288
Professional fees	**28,681**	15,159
Public information	**48,628**	44,585
Rent	**30,000**	32,500
Salaries and benefits	**636,441**	836,723
Technical services	**67,696**	86,156
Telephone	**9,927**	9,466
Travel	**11,418**	8,020
	$ 1,243,024	$ 1,468,405

SYDNEY ENVIRONMENTAL RESOURCES LIMITED
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